

DATA ON INCOME TAX PROPOSALS

Prepared by

The Staff of the Joint Committee on Taxation

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TABLE 1. Revenue Loss from Selected Tax Reduction Proposals ^{1/}
 (July 1, 1981 effective date assumed for all proposals)
 Billions of Dollars

Proposal	Calendar Year Liabilities					1986
	1981	1982	1983	1984	1985	
1. Administration's 3 year Individual Income Tax Reduction ^{2/}	14.6	48.7	92.9	129.8	152.8	178.9
2. Senate Finance Committee Bill ^{3/}	14.0	31.9	37.9	44.9	51.4	58.6
3. Repeal 1981 Social Security Increase ^{4/}	7.4	16.0	17.7	20.0	21.8	24.4
4. Indexing -- one year only ^{5/}	8.9	21.2	24.2	27.8	32.0	36.6
5. Indexing -- three years only ^{5/}	8.9	31.5	57.0	76.8	88.1	100.9
6. Indexing -- permanent ^{5/}	8.9	31.5	57.0	87.5	123.6	166.1

	Fiscal Year Receipts					1986
	1981	1982	1983	1984	1985	
1. Administration's 3 year Individual Income Tax Reduction ^{2/}	6.4	43.9	80.8	119.8	146.6	171.9
2. Senate Finance Committee Bill ^{3/}	3.9	25.7	34.8	41.3	48.3	55.2
3. Repeal 1981 Social Security Increase ^{4/}	2.9	15.6	17.2	19.1	21.1	23.5
4. Indexing -- one year only ^{5/}	3.2	18.7	23.1	26.5	30.4	34.8
5. Indexing -- three years only ^{5/}	3.2	25.1	47.2	69.2	83.7	96.0
6. Indexing -- permanent ^{5/}	3.2	25.1	47.2	75.8	109.7	149.7

^{1/} Includes increased outlays associated with refundable portion of earned income credit.

^{2/} Provides for a sequence of tax rate reductions of approximately 5 percent in 1981, 10 percent in 1982, 10 percent in 1983, and 5 percent in 1984. Estimates also include the loss associated with the reduction in the top rate of the alternative minimum tax from the present law 25 percent to the proposed rates for 1982, 1983 and 1984 of 24, 21 and 20 percent, respectively.

^{3/} These figures include the loss from changes in the personal exemption amount, the zero bracket amount, the earned income credit, and tax rates and brackets. The figures also include the deduction for two-earner couples and allowance of charitable contribution deduction to taxpayers who do not itemize deductions; these changes are phased in with full charitable contributions in 1984 and the two-earner deduction in 1982.

^{4/} Allows for the repeal of 1981 ad hoc base increase above what would occur under indexing and the repeal of the 1981 increase in rate. Figures include employer portion of tax.

^{5/} Adjustment of the personal exemption, the earned income credit, rate brackets, and the zero bracket amount by the rate of growth of the CPI deflator over the preceding fiscal year. For the estimates presented here the following inflation rates were used: 9.14, 10.38, 9.10, 8.53, 8.07 and 7.51 for FY 1980 through 1985 respectively. These values were derived from July 1980 CBO estimates with some adjustments for recent experience. For all options, the 1981 estimate assumes an adjustment for half the first year's inflation, i.e., 4.57 percent. Option 4 assumes an additional adjustment in 1981 of half the next year's inflation, i.e., 5.19 percent in 1982 with no further adjustment in succeeding years. Option 5 assumes adjustments for full year inflation in 1982 and 1983 with an additional adjustment of half year's inflation in 1984.

TABLE 2. Aggregate Change in Revenue by Income Class: Scheduled Tax Increases and Selected Tax Cut Proposals -- First Full Year
(1981 Income Level, Millions of Dollars)

Expanded* Income (000) 1/	Scheduled Tax Increases for 1981				Selected Tax Cut Proposals	
	Inflation Increase 1/	Interest and dividend exclusion 2/	Net income tax increase	Employee and self- employed social security increase 3/	Total increase	Administration proposal-first full year 108 rate cut 4/ Senate Finance Committee Bill 5/
Below \$5	\$ 168	\$ -25	\$ 143	\$ 228	\$ 371	\$ -260
\$5-10	1,232	-141	1,091	530	1,621	-2,020
10-15	1,365	-208	1,157	742	1,899	-1,926
15-20	1,570	-222	1,348	880	2,228	-2,635
20-30	3,703	-564	3,139	2,011	5,150	-6,379
30-50	5,268	-862	4,406	2,692	7,098	-9,394
50-100	2,781	-391	2,390	926	3,316	-5,457
100-200	771	-83	688	175	863	-2,035
200 & over	253	-21	232	44	276	-1,474
TOTAL	17,110	-2,517	14,593	8,227	22,820	-30,301

1/ Revenue gain from not adjusting personal exemption, earned income credit, zero bracket amount, and rate brackets by 9.14 percent.

2/ Revenue loss from expanding the \$100 dividend exclusion to the \$200 interest and dividend exclusion.

3/ Revenue gain resulting from ad hoc increase in the wage base (to \$29,700) above what would occur under indexing. (\$28,200), and from increase in rate to 6.13 percent from 6.12 percent for employees and to 9.3 from 8.1 percent for the self-employed.

4/ The Administration proposed a 5-percent rate cut for 1981, starting July 1, which is a cut of 10-percent at annual rates.

5/ Includes above-the-line charitable deduction and two earner deduction when fully effective, as well as rate cuts and increases in the personal exemption, earned income credit, and zero bracket amount. Does not include capital gains reduction, savings incentives, depreciation reform and other tax reductions affecting individual income taxes.

* Expanded income is equal to adjusted Gross Income plus excluded capital gains and various tax preference items less the smaller of investment interest paid or investment interest income.

TABLE 3.

Aggregate Change in Revenue by Income Class: Scheduled Tax Increases Through 1984
and the Administration's Proposal -- Three Full Years

(1981 Income Level, Millions of Dollars)

Scheduled Tax Increases				Administration Proposal When Fully Phased-in 3/
Income Class 4/	Inflation Increase	Employee and Self- employed Social Security Increase 2/	Total Increase	
Below \$5	\$ 415	\$ 249	\$ 664	\$ -143
\$5 - 10	3,753	577	4,330	-2,320
10 - 15	4,530	808	5,338	-4,826
15 - 20	4,773	959	5,732	-6,645
20 - 30	10,976	2,188	13,164	-16,479
30 - 50	15,216	2,885	18,101	-23,681
50 - 100	8,469	979	9,448	-14,106
100- 200	2,456	184	2,640	-5,946
200 & over	827	46	873	-4,710
TOTAL	51,414	8,875	60,289	-78,858

1/ Revenue gain from not adjusting personal exemption, earned income credit, zero bracket amount, and rate brackets by three full years of inflation assumed here to total 31.29 percent.

2/ Revenue gain resulting from 1981 ad hoc increase in the wage base (to \$39,700) above what would occur under indexing (\$38,200), and from increase in rate to 6.70 from 6.13 percent for employees and to 9.35 from 8.1 percent for the self-employed.

3/ The full 30 percent rate cut with the corresponding reduction in the alternative minimum tax rate to 20 percent.

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TABLE 4. Aggregate Revenue Change as Percentage of Total Income Tax Liability^{1/} by Income Class:
Scheduled Tax Increase and Selected Tax Cuts -- First Full Year (1981 Income Level)

Expanded Income Class (000)	Total Scheduled Income and Social Security Tax Increases for 1981	Administration Proposal- First Full Year	10% Rate Cut	Senate Finance Committee Bill
Below \$5	2/	2/	2/	2/
\$ 5-10	25.4%	14.6%	31.7%	
10-15	11.6	11.8	15.7	
15-20	9.7	11.5	12.5	
20-30	8.8	10.9	11.8	
30-50	6.3	11.0	11.0	
50-100	6.4	10.6	7.1	
100-200	3.6	8.4	3.8	
200 & over	1.3	7.0	3.0	
All income classes	8.0	10.6	10.2	

1/ Total income tax liability includes outlay portion of earned income credit.

2/ Individual income tax liability is negative for this group because earned income credits exceed tax liability

TABLE 5. Aggregate Revenue Changes as Percentage of Total Income Tax Liability 1/ by Income Class: Scheduled Tax Increase and Administration's Tax Cut Proposal -- Three Full Years
 (1981 Income Level)

<u>Expanded Income (000)</u>	<u>Total Scheduled Income and Social Security Tax Increases</u>	<u>Administration Proposal When Fully Phased-in</u>
<u>Below \$5</u>	<u>2/</u>	<u>2/</u>
\$5 - 10	67.9%	36.4%
10 - 15	32.7	29.6
15 - 20	24.9	28.9
20 - 30	22.5	28.1
30 - 50	21.1	27.6
50 - 100	18.3	27.3
100 - 200	10.9	24.6
200 & over	4.1	22.3
<u>All Income Classes</u>	<u>21.1</u>	<u>27.5</u>

1/ Total income tax liability includes outlay portion of earned income credit.
2/ Individual income tax liability is negative for this group.

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TABLE 6. Aggregate Revenue Change as Percentage of Total After-tax Income, by Income Class:
Scheduled Tax Increases and Selected Tax Cuts ^{1/} (1981 Income Level)

Expanded Income (000) Below \$5	Total Scheduled Income and Social Security Tax Increase for 1981 (000)	Administration Proposal- First Full Year 10% Rate Cut		Senate Finance Committee Bill .7%
		1.0%	.2%	
\$ 5-10	1.5	.9	1.9	
10-15	1.4	1.4	1.8	
15-20	1.4	1.7	1.8	
20-30	1.5	1.9	2.0	
30-50	1.8	2.4	2.4	
50-100	1.9	3.2	2.1	
100-200	1.5	3.4	1.5	
200 & over	.6	3.2	1.3	
All income classes	1.6	2.1	2.0	

^{1/} After-tax income equals expanded income minus income and social security taxes.

TABLE 7. Percent Distribution of Change in Tax Liability by Income Class:
Scheduled Tax Increases and Selected Tax Cuts
(1981 Income Level)

Expanded Income ('000)		Total Scheduled Income & Social Security Tax Increase for 1981	Administration's Proposal - First Full Year 10% Rate Cut	Senate Finance Committee Bill
Below \$5	1.6%		.2%	.9%
\$5-10	7.1		3.1	6.9
10-15	8.3		6.4	8.8
15-20	9.8		8.7	9.8
20-30	22.6		21.1	23.6
30-50	31.1		31.0	32.2
50-100	14.5		18.0	12.6
100-200	3.8		6.7	3.1
200 & over	1.2	4.9	2.2	
TOTAL	100.0		100.0	

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Table 8. --Percent Distribution of Income Tax Liability by Income Class: After Repeal of Scheduled Tax Increases or Selected Tax Cuts

Expanded Income	Present law		After repeal of scheduled income tax increases		After administration's proposal--first full year 10% rate cut		After Senate Finance Committee bill	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Below \$5	-157 ¹	-0.1%	-300 ¹	-0.1%	-226 ¹	-0.1%	-416	-0.2%
5 - 10	6,381	2.2	5,290	1.9	5,450	2.1	4,361	1.7
10 - 15	16,317	5.7	15,160	5.6	14,391	5.6	13,759	5.3
15 - 20	22,927	8.0	21,639	8.0	20,352	7.9	20,116	7.8
20 - 30	58,558	20.4	55,419	20.4	52,179	20.4	51,662	20.1
30 - 50	85,706	29.9	81,300	29.9	76,312	29.8	76,296	29.6
50 - 100	51,631	18.0	49,241	18.1	46,174	18.0	47,958	18.6
100 - 200	24,125	8.4	23,437	8.6	22,090	8.6	23,220	9.0
200 and over	21,110	7.4	20,878	7.7	19,636	7.7	20,481	8.0
Total	286,659	100.0	272,066	100.0	256,358	100.0	257,437	100.0

1/ Negative numbers refer to the refunds which result when the refundable earned income credit exceeds tax liability.

TABLE 9. Average Change in Tax Liability for Affected Returns: Selected Tax Cut Proposals
(Returns in Thousands, 1981 Income Level)

<u>Expanded Income (000)</u>	<u>Administration Proposal- First Full Year 10% Rate Cut Returns Affected</u>	<u>Senate Finance Committee Bill Returns Affected</u>	<u>Average Tax Reduction</u>
Below \$5	4,445	\$ 15	\$ 40
\$ 5-10	14,090	66	132
10-15	13,139	147	194
15-20	10,787	244	266
20-30	16,852	379	409
30-50	13,537	694	692
50-100	3,541	1,541	3,584
100-200	585	3,481	626
200 & over	<u>141</u>	10,468	<u>160</u>
All income classes	77,116	80,577	363

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TABLE 10.-- Aggregate Change in Revenue by Income Class: Administration's Proposed Reduction
 for 1981, 1982, 1983 and 1984
 (1981 Income Level, Returns in thousands, Dollars in Millions)

Expanded Income Class (000)	1981		1982		1983		1984	
	Returns Affected	Tax Change						
Below \$5	4,445	\$ -35	4,445	\$ -70	4,445	\$ -109	4,445	\$ -143
\$5-10	14,090	-466	14,090	-1,107	14,090	-1,857	14,090	-2,320
10-15	13,139	-940	13,139	-2,474	13,139	-4,039	13,139	-4,826
15-20	10,787	-1,262	10,787	-3,508	10,787	-5,605	10,787	-6,645
20-30	16,852	-3,096	16,852	-8,649	16,852	-13,802	16,852	-16,479
30-50	13,537	-4,443	13,537	-12,789	13,537	-20,147	13,537	-23,681
50-100	3,541	-2,602	3,541	-7,674	3,541	-12,235	3,541	-14,106
100-200	585	-988	609	-2,975	609	-5,076	609	-5,946
200 & over	141	-767	162	-2,207	162	-3,950	162	-4,710
TOTAL	77,116	-14,598	77,163	-41,452	77,163	-66,819	77,163	-78,858

TABLE 11.-- Expanded Income, Individual Income Taxes, Social Security Taxes and After-tax Expanded Income: Current Law (1981 Income Level, Returns in Thousands, Dollars in Millions)

All Returns		Returns with Individual Income Tax Liability or Earned Income Credit		Returns with Social Security Tax	
Number of Returns (000)	Expanded Income	Total Number of Returns	Total Individual Income Tax 1/	Number of Returns	Total Social Security Tax 2/
Below \$5	\$ 38,782	6,463	\$ -157	15,225	\$ 2,804
\$ 5 - 10	16,128	120,233	15,306	6,381	6,518
10 - 15	13,413	166,112	13,158	16,317	11,156
15 - 20	10,875	189,741	10,791	22,987	9,431
20 - 30	16,977	419,530	16,857	58,558	14,961
30 - 50	13,650	511,729	13,596	85,706	12,095
50 - 100	3,609	232,033	3,589	51,631	3,107
100 - 200	637	84,498	633	24,125	521
200 & over	165	68,065	164	21,110	131
TOTAL	93,599	1,830,722	80,557	286,659	79,655
					89,407
					1,454,656

1/ Tax net of outlay portion of earned income credit.

2/ Employee and self-employed portion only.

3/ After-tax income equals expanded income minus income and social security taxes.

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Table 12

FEDERAL INDIVIDUAL INCOME TAX LIABILITY UNDER
1981 INCOME LEVEL AND LAW, FOR TAXABLE RETURNS*TAX LIABILITY

(Millions of dollars)

Expanded Income (\$ Thousand)	By Schedule			By Deduction		Total
	Single	Joint	Head	Standard	Itemized	
Below \$5	473	18	2	431	62	493
\$5 - 10	5,907	788	372	6,340	726	7,066
10 - 15	10,119	4,457	1,744	13,789	2,532	16,320
15 - 20	11,178	9,527	2,284	17,323	5,665	22,988
20 - 30	15,475	39,441	3,644	35,375	23,184	58,558
30 - 50	8,767	75,095	1,847	26,748	58,960	85,706
50 - 100	4,306	46,396	931	5,038	46,594	51,631
100 - 200	2,186	21,443	496	1,200	22,926	24,125
200 & over	2,930	17,568	613	708	20,404	21,110
TOTAL	61,339	214,732	11,933	106,951	181,053	287,997

NUMBER OF
RETURNS

(Returns in Thousands)

Expanded Income (\$ Thousand)	By Schedule			By Deduction		Total
	Single	Joint	Head	Standard	Itemized	
Below \$5	4,109	125	35	3,848	421	4,269
\$5 - 10	9,572	2,439	920	11,408	1,527	12,931
10 - 15	6,444	5,221	1,470	10,886	2,249	13,135
15 - 20	3,995	5,686	1,106	7,494	3,293	10,787
20 - 30	3,319	12,543	994	9,192	7,666	16,857
30 - 50	1,088	12,222	286	3,698	9,898	13,596
50 - 100	254	3,275	60	320	3,268	3,589
100 - 200	56	562	15	32	601	632
200 & over	18	143	3	5	159	164
TOTAL	28,854	42,216	4,890	46,882	29,078	75,960

Details may not add to totals because of rounding.

*Does not include returns receiving an outlay portion of the earned income credit; the number of these returns and their tax liability are included in the third and fourth columns in Table 11.

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Table 13
AVEPAGE AND MARGINAL INCOME TAX RATES

Calendar Year	Average Rate ^{3/}	Marginal Rate ^{4/}
1962	12.9%	24.9%
1963	13.1	26.1
1964	11.9	22.7
1965	11.5	21.8
1966	12.0	22.2
1967	12.5	22.9
1968 ^{1/}	13.8	27.0
1969 ^{1/}	14.3	27.5
1970 ^{1/}	13.3	24.5
1971	12.7	24.0
1972	12.5	24.4
1973	13.1	25.7
1974	13.7	26.2
1975	13.1	26.8
1976	13.5	27.8
1977	13.8	28.7
1979 ^{2/}	14.6	30.6
1981 ^{2/}	15.9	32.2

^{1/} Includes the surcharge

^{2/} Estimated

^{3/} The average tax rate equals individual income tax liability for calendar year divided by adjusted gross income.

^{4/} The marginal tax rate is the tax rate applicable to the last dollar of income. The table shows the weighted average marginal tax rate for all tax returns, weighted by adjusted gross income.

